

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1290 - SB 1392

March 5, 2009

SUMMARY OF BILL: Defines “physical presence” for the purpose of hosting a website in Tennessee. Exempts website development or modification services provided to customers from state and local sales tax unless the customer has a physical presence in Tennessee.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$153,600

Decrease Local Revenue - \$64,900

Assumptions:

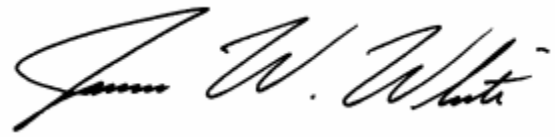
- According to the Department of Revenue, the sales of internet service providers, internet access providers, computer processing, and data preparation and processing services in Tennessee was approximately \$11,500,000 in 2008.
- Twenty percent of such sales (\$2,300,000) are estimated to be derived from services exempt under this bill.
- The current state sale tax rate is seven percent.
- The decrease of state sales tax revenue is estimated to be $(\$2,300,000 \times 7.0\% = \$161,000)$.
- Pursuant to Tenn. Code Ann. 67-6-103(a)(3)(A), incorporated municipalities receive 4.5925 percent of all state sales tax revenue as state-shared sales tax.
- The decrease of state-shared sales tax revenue to local government is estimated to be \$7,400 per year $(\$161,000 \times 4.5925\% = \$7,394)$.
- The net decrease to state revenue is estimated to be \$153,600 per year $(\$161,000 - \$7,400 = \$153,600)$.
- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease of local option sales tax revenues is estimated to be \$57,500 per year $(\$2,300,000 \times 2.5\% = \$57,500)$.

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- The total decrease of local government revenue is estimated to be \$64,900 per year (\$7,400 + \$57,500 = \$64,900).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James W. White, Executive Director

/rnc